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ANNUAL REPORT
Allarco Developments Ltd. 1971

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ALLARCO DEVELOPMENTS LTD.

DIRECTORS

Dr. Charles A. Allard M.D. F.R.C.S.(C)

Zane Feldman

Frederick Newton Hughes

George Alexander Cameron Steer, Q.C.

Morris Klimove

J. Cameron Allard

EXECUTIVE OFFICERS

Dr. Charles A. Allard M.D. F.R.C.S.(C)

- Chairman of the Board

Zane Feldman

- Vice Chairman

Frederick Newton Hughes

- President

Morris Klimove

- Vice President - Restaurants

J. Cameron Allard

- Executive Vice President & Secretary

Auditors

Peat, Marwick, Mitchell & Co.

Stock Exchange Listing

Toronto Stock Exchange

Registrars & Transfer Agents

North West Trust Company & Montreal Trust Company

Trustees for Debentures

Montreal Trust Company

Executive Offices - 10120 - 118 Street,
Edmonton, Canada.

ALLARCO DEVELOPMENTS LTD.

IS

AUTOMOTIVE	RESTAURANTS HOTELS	REAL ESTATE	AVIATION	OTHER	UNCONSOLIDATED SUBSIDIARIES
Crosstown Motor City	Oliver's Edmonton Winnipeg	LAND FOR DEVELOPMENT - Edmonton - Vancouver - Hamilton, Ontario - Puerto Vallarta, Mexico	International Jet Air Ltd.	Metropolitan Printing	Redden Holdings Ltd. 50%
Devonian Motors	Beachcomber Edmonton Calgary Victoria	RENTAL PROPERTIES Edmonton - Grandin Towers - Oliver Place - Regency - Bristol Towers - Crestview Towers	Liftair International Ltd. 66%	Farm Division Radio Station CHQT Ltd. 80%	Pine Point Investments Ltd. 50%
Edmonton Car Rentals	Steak Loft Edmonton			Columbia Insurance Services	Pine Point Shopping Centre Ltd. 50%
Edmonton Rent-A-Car	Chateau Lacombe Edmonton			Redden Construction (1970) Ltd. 55%	Ft. George Hotel Ltd. 50%
Mansion Mobile Homes	Peter Pond Hotel Ft. McMurray			Coronation Construction Ltd. 55%	North West Trust Company 58%
Medicar Diagnostic Centre		Calgary - Regency Vancouver - Park Royal Towers Victoria - Regency Winnipeg - Regency - Cumberland House - Chamber of Commerce Bldgs. Fort McMurray - Peter Pond Shopping Centre - Peter Pond Apartments			Blunt's Nursing Homes (1965) Ltd. 40%
					Matrix Exploration Ltd. 28%
					Clarendon Construction Ltd. 50%
					Citation Construction Ltd. 50%

ALLARCO DEVELOPMENTS LTD.

Annual Report of the Chairman

The year ending October 31st, 1971 was a mixed one for your Company with profits up in some areas and down in others. Our record of a steady rising trend of earnings was broken, largely due to our experience with Southern Petrochemical Corporation and our wholly owned subsidiary International Jet Air Ltd. Fortunately, in the case of the Southern Petrochemical Corporation we are not exposed to further cash drain and at the time of this writing the operations at International Jet Air Ltd. have been adjusted to the point where that company is presently operating at a profit.

Operations for the year resulted in an operating profit of \$69,000 with a non-recurring loss of \$696,000 largely due to our investment in Southern Petrochemical Corporation. There is a possibility that litigation may ensue between Allarco and the parent company of Southern Petrochemical Corporation.

International Jet Air Ltd. experienced a difficult year with a fall-off in executive transportation due to depressed economic conditions. In the latter part of our fiscal year decisions were made to cut back the fixed base maintenance facility in Calgary and concentrate on servicing the licences for charter and the scheduled Electra operation between Whitehorse and Inuvik. Since that time overhead has been severely trimmed and at the present time International Jet Air Ltd. is experiencing a much higher degree of activity. We are hopeful that the expanded oil activity in Northern Canada and the Arctic Islands will continue to benefit our aviation activities.

The Automotive Division started the year under depressed economic conditions which reflected in the operation. However, the last half of the year indicated a slow but steady reversal and it is expected that the Automotive Division will operate again at a profit during the coming fiscal year.

Land sales were up in 1971 despite a slow start in the six month period. It is anticipated that land sales in 1972 will again exceed those of the preceding year. During 1971 your Company exercised its option to purchase 900 acres adjoining the Town of St. Albert in the Edmonton area. We have now commenced discussions with officials of the Town of St. Albert with the view to having this land annexed and commencing development as soon as possible.

Your Company has a substantial interest in 1100 acres adjoining the City of Hamilton in the County of Ancaster in Ontario. We are hopeful that the next twelve months may see a beginning of the development and sale of this land. An agreement by the City of Hamilton to supply sewer and water facilities to the County of Ancaster should hasten the servicing and development of this land.

During the year your Company purchased the former Workmen's Compensation Building in downtown Edmonton. This valuable site in the heart of the City is a key corner location and suitable for a major office building some time in the future. Meanwhile it is being rented to multiple tenants.

Also during the year your Company commenced a commercial building at 118th Street and Jasper Avenue in Edmonton, the upper floor of which will serve as the new Head Office for Allarco Developments Ltd. A shopping centre containing approximately 35,000 square feet was commenced in Calgary and should be finished in the spring of 1972.

It is the intention of your Directors to continue the construction and development of commercial properties where we either own or can obtain desirable sites. It is anticipated that at least three such projects will be commenced during 1972.

The Hotel and Restaurant Division has experienced satisfactory growth during the year. In the latter part of the year a major restaurant was opened in Winnipeg. This new "Oliver's" has exceeded our expectations and has confirmed our intention to expand this type of restaurant chain.

North West Trust Company, in which your Company holds a majority interest, continued to make good progress during 1971 and ended the year with a profit of \$350,000, some \$100,000 above the results of last year. These profits are not reflected in Allarco's financial statements. Our involvement in the financial field through North West Trust Company is beginning to demonstrate satisfactory profits which we visualize as increasing over the years. Your Directors are considering the formation of a financial corporation which would include an insurance division as well as North West Trust Company. To this end we have purchased a ma-

jority interest in the Seaboard Life Insurance Company of Vancouver. This company commenced business in March 1961 and presently has assets of \$6,800,000 with insurance in force of \$87,000,000.

It is the intention of your Directors to concentrate our activities in four main areas namely, the construction of commercial properties, the development of land, the expansion of our restaurant chain and the development and expansion of a financial corporation. To this end we contemplate the disposal of certain peripheral assets, one of which has already been accomplished since the year end, namely the disposal of our interest in Radio Station CHQT subject to approval of the Canadian Radio and Television

Commission.

Your Company has been fortunate to obtain on a full time basis the services of Mr. F. Newton Hughes who has been a Director of the Company and will now serve as President, while I will be continuing as Chairman of the Board. Mr. Hughes brings an unusually wide financial and general business experience to our Company which should prove extremely valuable.

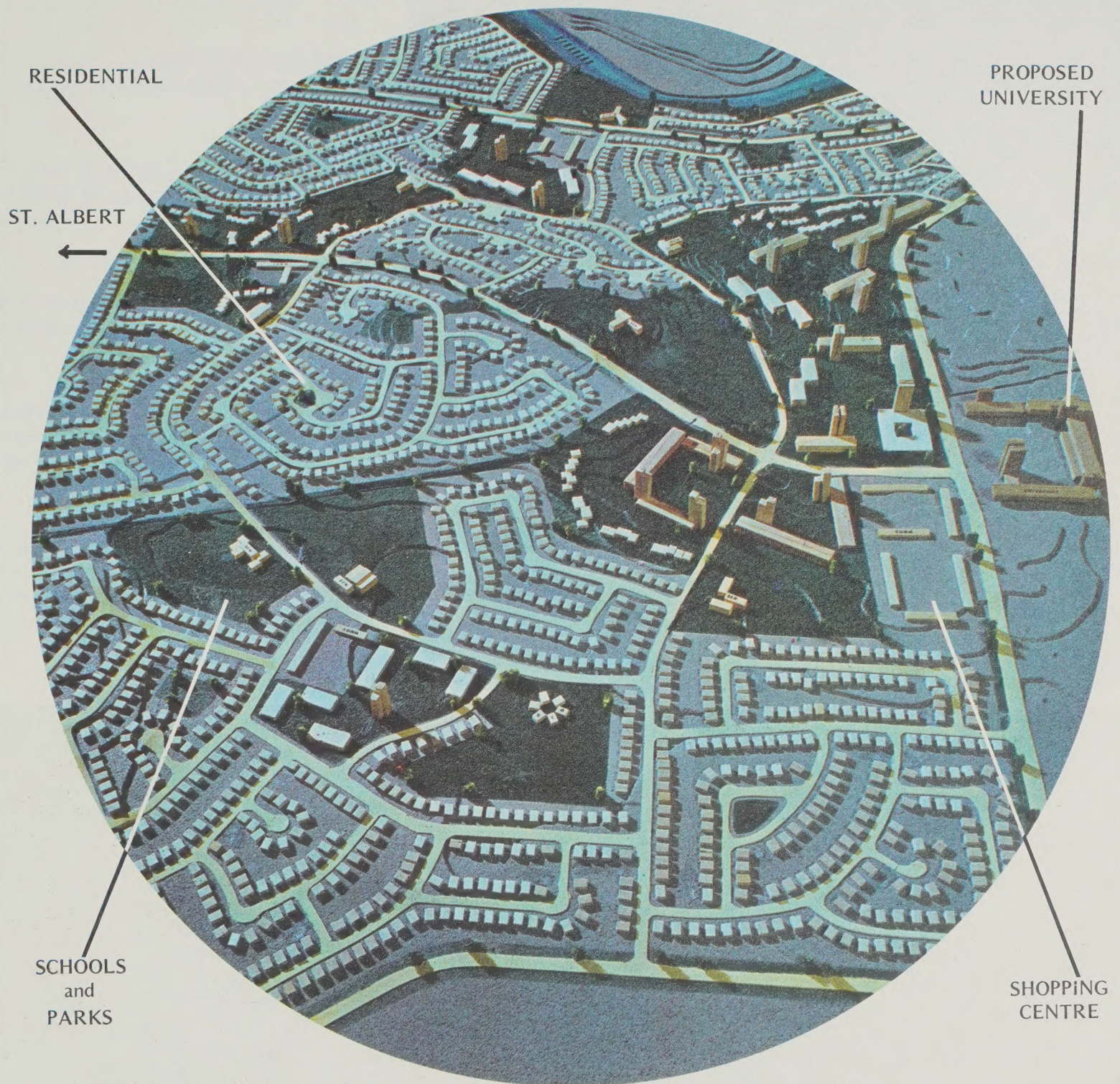
The past year has been a difficult one in many respects and I would like to express my thanks and appreciation on your behalf to all the officers and employees for their loyal efforts in the past year.



Charles A. Allard

February 7, 1972.

Land Development - St. Albert



Your company owns 803 acres of unsubdivided land adjacent to the Town of St. Albert, a satellite town lying just north of the Edmonton city limits. The property is bounded on the north by the Sturgeon River, on the west by the Town of St. Albert and on the east by the proposed Athabasca University. The development of this land is being phased over a ten year period and when fully developed will accommodate a population of approximately 20,000. The development will include one university oriented shopping centre, three neighbourhood shopping centres, medium density apartments, row housing and single family dwellings. Should the University become a reality the development of this property will be accelerated. Over the last two years the company has carried out extensive planning for this major development and is now in the final stages of getting the necessary government approvals. It is expected that the initial stage of residential servicing and building will commence in the latter part of 1972.



*Park Royal Towers
507 Luxury Suites
Vancouver*



*Oliver's Restaurant
Canadian and Continental Cuisine
Edmonton*



*Oliver Place
234 Suites and Shopping Centre
Edmonton*



*The Beachcomber
Polynesian Restaurant
Edmonton*

Electra aircraft operated by International Jet Air Ltd. for Arctic resupply.



*North West Trust Company
Head Office Building,
Edmonton*



*Peter Pond Hotel and Shopping Centre
Fort McMurray, Alberta*



*Crosstown Motor City
Edmonton
Canada's largest Chrysler Parts Distributor*



ALLARCO DEVELOPMENTS LTD.

And Subsidiaries

Consolidated Balance Sheet

October 31, 1971

ASSETS

	<u>1971</u>	<u>1970</u>
Cash	\$ 773,772	291,059
Accounts receivable	4,175,982	3,856,193
Inventories, at lower of cost or market (Note 2)	4,576,759	5,123,809
Prepaid expenses	512,345	535,244
Loans and agreements, at cost (Note 3)	375,725	634,680
Land for development, at cost (Note 4)	7,936,329	4,646,355
Natural resources, at cost	250,102	308,176
Investments, at cost (Note 5)	4,672,838	4,208,735
Fixed assets, at cost less depreciation \$4,548,296. (\$3,408,255. - 1970) (Note 6)	41,663,762	42,055,153
Other assets, at cost less amortization (Note 7)	1,343,243	822,174

APPROVED ON BEHALF OF THE BOARD

Charles A. Allard

Director

Jane Feldman

Director

\$66,280,857

62,481,578

LIABILITIES

	<u>1971</u>	<u>1970</u>
Bank advances - secured (Note 8)	\$ 4,306,180	1,561,449
Accounts payable and accrued liabilities	9,467,256	8,236,086
Due to affiliated construction company	316,927	416,162
7% Convertible debentures (Note 9)	5,000,000	5,000,000
Notes and debentures - secured (Note 10)	2,902,951	3,303,282
Mortgages and agreements - secured (Note 10)	34,609,804	34,760,895
	<u>56,603,118</u>	<u>53,277,874</u>
Deposit on sale of aircraft	600,000	-
Minority interest in subsidiaries	105,104	(27,359)
Deferred income taxes	1,344,678	1,277,018
Deferred revenue (Note 11)	1,135,894	935,247

SHAREHOLDERS' EQUITY:

Capital Stock - (Note 12):		
Issued and fully paid	3,753,758	3,653,758
Retained earnings	2,738,305	3,365,040
	<u>6,492,063</u>	<u>7,018,798</u>
	<u>\$ 66,280,857</u>	<u>62,481,578</u>

ALLARCO DEVELOPMENTS LTD. And Subsidiaries

Consolidated Statement of Source and Application of Cash

For the Year ended October 31, 1971

Source of Cash	1971	1970
Net profit (loss) for the year	\$ (626,735)	947,710
Add charges not requiring a cash outlay:		
Depreciation and amortization	1,571,860	1,256,433
Deferred income taxes	67,660	603,477
Minority shareholders interest	694	(40,019)
Loss on investments	312,986	-
Cost of land sold	256,083	232,532
Other	187,753	(173,392)
Total cash from operations	1,770,301	2,826,741
Decrease (increase) in inventories and prepaids, net	569,949	(151,356)
Decrease in loans and agreements receivable, net	258,955	324,958
Disposals of fixed assets	3,424,160	4,685,456
Increase in bank advances	2,744,731	884,846
Increase in accounts payable	1,131,935	1,052,498
Issue of mortgages, agreements, notes and debentures payable	5,351,778	6,094,198
Deposit on aircraft sale	600,000	-
Issue of capital stock	100,000	133,556
Deferred revenue	200,647	935,247
	16,152,456	16,786,144
Application of Cash		
Increase in accounts receivable, net	319,789	1,901,165
Purchase of land for development and expenses capitalized	3,790,631	867,019
Investments in and advances to affiliates	1,356,974	2,086,678
Additions to fixed assets	3,926,216	9,636,818
Goodwill acquired	192,047	-
Other assets acquired	257,886	245,803
Payments on mortgages, agreements, notes and debentures payable	5,826,200	2,320,053
	15,669,743	17,057,536
Increase (decrease) in cash	\$ 482,713	(271,392)

Consolidated Statement of Retained Earnings

For the Year ended October 31, 1971

	1971	1970
Balance at beginning of the year	\$ 3,365,040	2,417,330
Net profit (loss) for the year	(626,735)	947,710
Balance at end of the year	\$ 2,738,305	3,365,040

PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

2500 ALBERTA TELEPHONE TOWER

10020 - 100TH STREET

EDMONTON, ALBERTA

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Allarco Developments Ltd. and subsidiaries as of October 31, 1971 and the consolidated statements of operations, retained earnings and source and application of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at October 31, 1971 and the results of their operations and source and application of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Edmonton, Alberta
February 4, 1972

Chartered Accountants

ALLARCO DEVELOPMENTS LTD.

And Subsidiaries

Consolidated Balance Sheet

October 31, 1971

ASSETS

	<u>1971</u>	<u>1970</u>
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Natural resources, at cost	250,102	308,176
Investments, at cost (Note 5)	4,672,838	4,208,735
Fixed assets, at cost less depreciation \$4,548,296. (\$3,408,255. - 1970) (Note 6)	41,663,762	42,055,153
Other assets, at cost less amortization (Note 7)	1,343,243	822,174

APPROVED ON BEHALF OF THE BOARD

Charles A. Alvarado

Director

James F. Johnson

Director

\$66,280,857

62,481,578

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	<u>1971</u>	<u>1970</u>
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Retained earnings	2,738,305	3,365,040
	<u>6,492,063</u>	<u>7,018,798</u>
	<u>\$ 66,280,857</u>	<u>62,481,578</u>

Consolidated Statement of Operations

For the Year ended October 31, 1971

	<u>Automotive</u>	<u>Hotel and Restaurant</u>	<u>Real Estate</u>	<u>Aviation</u>	<u>Other</u>	<u>1971 Total</u>	<u>1970 Total</u>	<u>1969 Total</u>	<u>1968 Total</u>
Income - Note 15	\$15,497,039	8,511,451	4,586,616	4,893,840	5,450,345	38,939,291	38,191,705	28,910,530	25,174,979
Cost of sales, operating expenses and interest	15,283,246	7,564,110	3,721,880	4,922,740	5,071,246	36,563,222	34,782,523	26,738,532	23,492,544
Net divisional profit (loss)	\$ 213,793	947,341	864,736	(28,900)	379,099	2,376,069	3,409,182	2,171,998	1,682,435
Head office expense						298,192	278,723	187,230	192,245
Debenture interest						350,000	350,000	141,994	-
						648,192	628,723	329,224	192,245
Net profit before the undernoted expenses						1,727,877	2,780,459	1,842,774	1,490,190
Provision for depreciation						1,571,860	1,256,433	829,373	714,516
Provision for income taxes						85,981	616,335	457,130	345,365
Minority shareholders' interest						694	(40,019)	17,441	31,643
						1,658,535	1,832,749	1,303,944	1,091,524
Operating profit for the year before non-recurring items						69,342	947,710	538,830	398,666
Non-recurring items - net (loss) (Note 14)						(696,077)	-	-	-
Net profit (loss) for the year						\$ (626,735)	947,710	538,830	398,666
Operating profit per share						\$.05	.73	.47	.40
Net profit (loss) per share						\$ (.47)	.73	.47	.40
Cash flow per share						\$ 1.33	2.15	1.61	1.49

Notes to the Financial Statements

October 31, 1971

1. Principles of Consolidation:

The accounts of all subsidiary companies, with one exception, have been included in the consolidated financial statements. This one exception is North West Trust Company in which Allarco owned 93.2% of the common shares (voting) at October 31, 1971, (93% at October 31, 1970) and 15.7% of the First Preferred Participating shares (non-voting) at October 31, 1971, (14.4% at October 31, 1970) which entitles Allarco to 58% of the income (57.7%, 1970). The accounts of this company have not been consolidated because by the nature of its business such a consolidation would not be meaningful.

Affiliated companies in which Allarco owns 50% or less have not been consolidated and only the cost of these investments is included in these financial statements.

2. Inventories:

	<u>1971</u>	<u>1970</u>
Automotive Division	\$3,937,391	4,615,565
Hotel and Restaurant Division	236,284	163,873
Aviation Division	241,003	248,009
Other	162,081	96,362
	<u>\$4,576,759</u>	<u>5,123,809</u>

3. Loans and Agreements Receivable:

	<u>1971</u>	<u>1970</u>
Amounts due within one year	\$ 48,232	251,361
Amounts receivable to 1984	327,493	383,319
	<u>\$ 375,725</u>	<u>634,680</u>

4. Land for Development:

Land is stated at original purchase price plus carrying charges which include interest and real estate taxes pertaining to the specific property.

	<u>1971</u>	<u>1970</u>
Opening balance	\$4,646,355	4,011,868
Acquisitions	3,249,300	553,256
Carrying costs & local improvements	541,331	313,763
	<u>\$8,436,986</u>	<u>4,878,887</u>
Less land sold or transferred	500,657	232,532
Closing balance	<u>\$7,936,329</u>	<u>4,646,355</u>

Land for development with a cost of \$3,380,573 has been appraised at \$9,030,049 by Jellis Appraisal Co. Ltd. The balance of the land with a cost of \$4,555,756 has not been appraised as it consists principally of property acquired during the past year. The total of the appraised land value and the unappraised land at cost is \$13,585,805 resulting in an appraisal surplus of \$5,649,476 which is not reflected in these financial statements.

5. Investments:

	<u>1971</u>		<u>1970</u>	
	<u>Investments</u>	<u>Advances</u>	<u>Investments</u>	<u>Advances</u>
Unconsolidated subsidiary	\$1,716,530		1,707,372	
Affiliated companies	16,536	446,546	165,847	397,622
Syndicates	106,000	2,222,191		1,742,858
Other	165,035	-	195,036	-
	<u>\$2,004,101</u>	<u>2,668,737</u>	<u>2,068,255</u>	<u>2,140,480</u>

The book value of Allarco's interest in unconsolidated subsidiary and affiliated companies was \$2,211,800 while dividends declared during the year and included in income amounted to \$96,658.

The company's share of the profits of the unconsolidated subsidiary company for the year ended October 31, 1971 was \$101,610 (\$3,615 - 1970) and since acquisition \$184,720 (\$83,110 - 1970). Dividend income of \$9,408 (Nil, 1970) has been included in the consolidated statement of operations during the year and \$25,808 (\$16,400 - 1970) since acquisition.

6. Fixed Assets:

Property, Plant and Equipment at cost less accumulated depreciation:

	<u>1971</u>	<u>1970</u>
Automotive	\$ 3,575,161	3,557,668
Hotel and Restaurants	8,615,914	8,088,156
Real Estate	22,928,531	23,977,179
Aviation (including aircraft)	5,182,936	5,053,948
Other	1,361,220	1,378,202
	<u>\$41,663,762</u>	<u>42,055,153</u>

Long term leases:

Four buildings with a total cost of \$15,170,681 are located on land held under long term leases, all of which have an unexpired term of at least 73 years. The lease obligations on these properties for each of the next five years are \$175,004 per year.

7. Other assets at cost less amortization:

	<u>1971</u>	<u>1970</u>
Preopening expenses	\$ 127,704	161,862
Goodwill on acquisition of subsidiaries	742,770	454,304
Deferred development expenses	472,769	206,008
	<u>\$1,343,243</u>	<u>822,174</u>

It is company policy to write-off the preopening expenses equally over the first five years of full operation of the new business.

The goodwill figure arises principally from the acquisition of Radio Station CHQT Ltd., Devonian Leaseholds Ltd. (Edmonton Steak Loft and Edmonton Beachcomber) and International Jet Air Ltd.

During 1971 the company adopted a policy to write-off goodwill at the rate of 5% of cost per annum on a straight line basis. During 1971 an amount of \$35,350 has been written off and included in depreciation and amortization.

8. Bank advances:

Bank advances are secured by a general assignment of book debts and a fixed and floating charge debenture payable on demand.

9. 7% Convertible Sinking Fund Debenture Series "A"

Pursuant to the Trust Deed dated May 2, 1969 the company covenanted to establish a Sinking Fund for the retirement of these Series "A" Debentures by payments of \$175,000 each year from 1974 to 1987 inclusive. The Debentures are dated June 1, 1969 and will mature June 1, 1989; they are secured by a first floating charge on all of the company's assets. Each \$1,000 Debenture is convertible at the holder's option up to October 31, 1974 into 75 fully paid non-assessable common shares of no par value; subsequent to that date, until maturity, into 65 fully paid non-assessable common shares of no par value. Interest is payable half-yearly on June 1st and December 1st in each year.

10. Long term debt: (a) Mortgages and agreements payable at an average rate of 7.72% mature between 1972 and 2001.

Principal payments due in the next five fiscal years are:

1972	\$1,755,708
1973	\$1,667,664
1974	\$1,581,992
1975	\$1,479,070
1976	\$1,457,994

(b) Notes and debentures payable at an average interest rate of 7.9% mature between 1972 and 1984.

Principal payments due in the next five fiscal years are:

1972	\$ 867,130
1973	\$ 735,263
1974	\$ 622,090
1975	\$ 373,437
1976	\$ 196,250

Interest on long term debt included in cost of sales in the Statement of Operations amounted to \$3,078,527 (\$2,690,240 - 1970).

11. Deferred Revenue:

Deferred revenue includes an amount of \$915,264 which represents profit on sale of land during 1970 to an unconsolidated subsidiary. The sale price was based on the then current appraisal value of the land and profits will be recognized as the land is sold or developed.

12. Capital Stock:

The authorized capital is 3,500,000 common shares without nominal or par value to be issued for a maximum consideration not to exceed \$10,000,000.

The issued and fully paid common shares are as follows:

	<u>Number of shares</u>	<u>Value received</u>
Balance, October 31, 1970	1,319,788	\$ 3,653,758
Shares issued in exchange for remaining minority shares of a subsidiary, International Jet Air Ltd.	20,000	100,000
Balance, October 31, 1971	<u>1,339,788</u>	<u>\$ 3,753,758</u>

The company has granted options which expire January 15, 1974 to directors (10,000) employees (16,000) of the company and subsidiaries to purchase shares at \$12.00 per share, 24,000 shares have been reserved for options which may be granted in the future. In addition 375,000 shares have been reserved for conversion to debentures as set out in Note 9.

13. Remunerations to Directors and Senior Officers:

Remuneration to Directors and Senior Officers amounted to \$139,000 (1970 - \$170,000) for the year of which \$12,000 (1970 - \$12,000) was paid by an unconsolidated subsidiary.

14. Non-recurring Items:	Loss on: Southern Petrochemical Corporation	\$ 959,377
	Disposal of aircraft	244,190
		<u>1,203,567</u>
	Gain on: Sale of Robson Place Apartments	\$ 472,686
	Sale of other investments	<u>34,804</u>
		507,490
	Net Loss	<u>\$ 696,077</u>

15. Classes of business: Based on income the classes of business of the Company are as follows:

	<u>1971</u>	<u>1970</u>
Automotive	39.8	42.8
Hotel and restaurant	21.8	20.8
Real estate	11.8	23.1
Aviation	12.6	8.2
Other	14.0	5.1
	<u>100.0%</u>	<u>100.0%</u>

16. Commitments:

Construction commitments outstanding at October 31, 1971 amounted to approximately \$449,800 and are covered by mortgage funds committed but not yet received of \$800,000.

17. Contingent Liabilities:

The company is contingently liable as an endorser of customers' secured notes arising from retail sales in the automotive division for the amount of \$1,801,927.

It is expected that a law suit will be commenced against the Company claiming \$480,000. If a claim is commenced the Company will counter claim for an amount in excess of \$480,000.

18. Subsequent Events:

(1) On November 5, 1971 the assets and licenses of Radio Station CHQT Ltd. (80% owned) were sold for \$1,450,000 subject to Canadian Radio and Television Committee approval. Under terms of the sale the earnings remain in CHQT until the date of closing. Allarco's share is expected to approximate \$1,100,000.

(2) On December 9, 1971 a 99 acre parcel of land for development in southwest Edmonton was sold for \$1,589,000 cash which was carried on the books at a cost of \$371,054 (appraised value \$1,500,000).

(3) On December 14, 1971 Allarco acquired 225,975 common shares (52%) of Seaboard Life Insurance Company for \$940,644.

